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## Feature: Funds of structured funds also quietly set foot in The Netherlands (part 3)

*In the third part of our feature series about the fund wrapper, we focus on the Netherlands*



Traditionally not a market where the fund wrapper has made huge inroads, especially when it comes to tranche products, the last structured fund that struck in the Netherlands (Robeco's capital protected [International Guarantee Fund](#)) matured in July 2011, and since then no new products were issued, according to SRP data.

However, similar to the UK, a number of funds which solely invest in structured products have appeared on the Dutch market in recent years, and in this article we are having a closer look at two of those: Bufferfund and Mondriaan Structures Fund.

The former was launched in August 2016, and invests predominately in capped bonus- and discount certificates almost solely linked to the Eurostoxx 50. Mondriaan Structures Fund, on the other hand, has been live since January 2018 and focuses on so called 'worst of' autocallable structures often tied to two or more of the following indices: Eurostoxx 50, MSCI Emerging Markets, Nikkei 225 and S&P 500.

"If you invest in structured products— at least in our fund, but also with other funds – it is more about structures where a conditional guarantee applies," says Marcel Tak (*pictured*), fund manager, Bufferfund. "That can be interesting because these products are not dependent on the interest rates but much more on other factors such as volatility and dividends."

Structures with soft capital protection, such as autocallable notes and memory coupon notes, are somewhat more complex, making them more difficult to manage, and that is where a fund could offer a helping hand. "I can imagine that investors think: 'It might be a little bit tricky to buy just one or two notes [instead] It would be nice if there is a fund that can manage that for me'," says Tak.

Jeroen Sinnige, of the investment team at Mondriaan Structures Fund, believes that diversification is one of the most important features provided by a fund of structured products. "There are investors who only have a few structured products in their portfolio," says Sinnige. "If they entered those products when the markets were on a high, they become very dependent on that high strike level, and, in case there is a drawdown, the chances that they get stung are much higher than with our fund.

"We have 30 to 35 structured products in our fund, all with different strike dates. We provide a good diversification. We buy products throughout the year and we believe that our fund has a much lower risk," says Sinnige.

## Costs

Setting up a fund that invests in structured products not only requires knowledge, but also the ability to explain the specific characteristics of those products, and the costs involved, to the investor.

“These funds are much more complex than an ordinary equity or bond fund,” says Tak. “You have to make it clear to your investors what the objective of the fund is, where the risks are and where the return opportunities are.

“What’s more, you have to pay close attention to the costs because you invest in products that also include costs,” says Tak.

With an annual management fee, administration costs, transaction costs etc., funds that invest in structured products have to be careful that the total cost of ownership does not become too big for the fund.

“If you were to buy structured products where the fee in the product itself is too high, then that comes on top of the costs,” says Tak.

According to Sinnige, Mondriaan Structures always gets attractive pricing due to its wide network of counterparties. “That is a huge advantage and with that we make up for the costs. If you have one or two products you often talk about small amounts and low coupons, but because we can deposit very large volumes we get a very good coupon,” says Sinnige.

Bufferfund buys its certificates on the Frankfurt and Stuttgart exchanges while all of Mondriaans products are private placements, made to measure by different issuers, including, among others, Goldman Sachs, Bank of America Merrill Lynch, Credit Suisse, Van Lanschot, Société Générale and UBS.

Each issuer has a different agenda throughout the year and the funding of these parties can also be different, according to Sinnige. “We make good use of that. What we do for our fund, we also do for other parties and that makes us an interesting counterparty for those issuers,” says Sinnige.

“If your fund invests in structured products, you either have to make sure that you have good agreements in place with the parties that manufacture those products for you, or buy them on the stock exchange and ensure that the intrinsic costs for these products are low,” says Tak.

Funds which invest in structured products are still a rarity in the Netherlands and the fact that banks and asset managers in general want to avoid risk, especially so in the current regulatory environment, certainly plays a part. One of the main obstacles is that it remains difficult to explain how these funds work.

“You don’t want to run the risk that as soon as things stop going according to plan the investor says: ‘I didn’t know exactly how that fund worked’,” says Tak. “I think that parties such as banks and asset managers do find this a risk and therefore prefer to focus on ordinary equity or bond funds.”

## Performance

Whereas Bufferfund uses the Eurostoxx 50 as its benchmark, Mondriaan Structures Fund does not have a benchmark as such, although the fund does provide a number of criteria for comparison on its website, including the Eurostoxx 50, MSCI All Countries World Index and Euro Broad Investment Grade Index.

“We don’t really want a benchmark because with this type of fund it is very difficult to pinpoint what could be seen as a benchmark,” says Sinnige. “Ultimately, especially if the markets would go up heavily – 30 to 40%, which has happened in the past – we are going to lag behind because we would get a lot of calls since the products we invest in always have a cap [...] however, we believe that in the long term we will see outperformance, and continue to see outperformance, as we do already.”

Since its inception, on January 1 2018, Mondriaan Structures Fund has registered a return of 9.31% while the price of Bufferfund since the launch on August 18 2016 is 10.57%, despite 2018 being a difficult year.

“In 2018, the performance of the fund was minus four percent while the performance of the Eurostoxx 50 stood at -12%,” says Tak. “Of course, we are never happy with a negative result, but if we look at our objective – to keep losses to a minimum if the markets fall – we certainly have succeeded. Minus 12% against minus four percent, that’s not bad.

“We want the volatility of our fund to be at most at half that of the volatility of our benchmark index. The volatility of the Eurostoxx 50 was 13% and that of our fund was 5.5%, so we met that target. To have a negative result is never great, however, when you only have a limited fall of minus four percent in the performance, it is a lot easier to get back in the positive figures and in January we achieved a performance of plus 3.5%, so that is looking good,” says Tak.

Although Bufferfund mainly invests in capped bonus- and discount certificates, other products are not ruled out, as long as they fit in the moderate risk profile of the fund.

“We want to minimise risk when the market conditions are poor and in the long term we want to achieve a return that is equal to that of the equities, or at least a positive return, and we adjust our instruments accordingly.

“If we see that the market is changing and the volatility is low we would buy a different kind of bonus certificate than when the market has high volatility,” says Tak, who notes that reverse certificates, which the fund has bought in the past are no longer interesting. “That means that we hold more liquidity because we can reduce that downward movement. Instead of reverse certificates we have bought discount certificates.”

Mondriaan Structures invests in general in autocallables, but the fund can opt for other products too, according to Sinnige. “Imagine we get a huge dip. In that case I don’t think we would choose autocallables but opt for coupon notes instead,” he says”

Click the link to view the latest factsheet for [Bufferfund](#) and [Mondriaan Structures Fund](#).

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